

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2010-132-W**

**IN RE:**

Application of May River Water Company, )  
Inc. for adjustment of rates and charges for )  
the provision of water service. )  
 )  
\_\_\_\_\_ )

**DIRECT TESTIMONY OF**  
**JACQUELYN WATSON**

1    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A.            My name is Jacquelyn Watson. My business address is 108 Trail Creek Lane,  
3            Savannah, Georgia 31405.

4

5    **Q.    WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6    A.            I am a Certified Public Accountant with the firm of Watson & Associates, P.A. of  
7            which I am a partner.

8

9    **Q.    WHAT IS YOUR EDUCATIONAL BACKGROUND AND YOUR WORK**  
10       **EXPERIENCE?**

11   A.            I graduated from the University of Florida with a Bachelor of Science Degree and  
12            taught school for 11 years. Additionally, I have been a Certified Public Accountant for  
13            over twenty-five years.

1 **Q. ARE YOU CURRENTLY A MEMBER OF ANY PROFESSIONAL**  
2 **ASSOCIATIONS?**

3 A. I am a member of the Georgia Society of Certified Public Accountants and the  
4 American Institute of Certified Public Accountants.  
5

6 **Q. WHAT ARE YOUR RESPONSIBILITIES WITH RESPECT TO MAY RIVER**  
7 **WATER COMPANY, INC.?**

8 A. My responsibilities include advising May River, Water Utility Management, LLC  
9 (“WUM”), and their sister companies as to various financial decisions and tax matters  
10 and preparing tax returns. I have been providing these services to May River since 2009.  
11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my testimony is to sponsor the application filed by May River for  
14 an adjustment of certain rates and charges for the provision of water services and to  
15 provide an explanation of May River’s need for rate relief.  
16

17 **Q. PLEASE DESCRIBE MAY RIVER’S APPLICATION.**

18 A. In addition to the proposed rate schedule, the Application contains financial  
19 statements consisting of a balance sheet, income statements, an asset and depreciation  
20 schedule, revenue calculations under current rates and rates proposed in the application,  
21 and a schedule of current and projected customers. Also included is a sample customer  
22 bill form.

1 **Q. MS. WATSON, WERE THE FINANCIAL STATEMENTS ATTACHED TO THE**  
2 **APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION?**

3 A. Yes, they were.  
4

5 **Q. WHAT IS CONTAINED IN THE FINANCIAL STATEMENTS?**

6 A. The test year chosen by May River is the year ended December 31, 2009. Exhibit  
7 B, Schedule B of the application is the Income Statement for the test year which shows  
8 that May River experienced a per book net income/(loss) of (\$22,897.08). This results in  
9 an operating margin of (194.30%). Additionally, May River has experienced an increase  
10 in per book operating expenses of \$24,296 since its last rate case. This level of financial  
11 loss and increase in expenses demonstrates May River's need for rate relief.

12 Exhibit B, Schedule A of the application is the Balance Sheet as of December 31,  
13 2009. At the end of the test year, May River had had assets of approximately \$7,196.  
14 Exhibit B, Schedule D of the application provides information regarding the current and  
15 projected customers served by May River. Additionally, the application contains an  
16 Asset and Depreciation Schedule for May River's plant in service. Exhibit B, Schedule E  
17 of the application details the effect of the proposed revenues under the rates requested in  
18 the application.  
19

20 **Q. WOULD YOU PLEASE PROVIDE A BRIEF EXPLANATION OF THE PRO**  
21 **FORMA ADJUSTMENTS INCLUDED ON SCHEDULE B?**

22 A. The Company calculated State and Federal Income taxes at the current rates of  
23 5% and 35%, respectively, to account for the requested rate increase. Additionally, the

1 Company adjusted for Rate Case Expenses to reflect the cost of this proceeding  
2 amortized over a three-year period.  
3

4 **Q. WHAT IS CONTAINED IN SCHEDULE C?**

5 A. Schedule C is the Company's Book Asset Detail demonstrating the Company's  
6 assets and depreciation rates during the test year. As of December 31, 2009, the  
7 Company had net assets of approximately \$15,808. After recognition of depreciation, the  
8 Net Book Value of these assets is approximately \$2,068.  
9

10 **Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN MAY RIVER AND**  
11 **WATER UTILITY MANAGEMENT, LLC.**

12 A. As reflected in the Application, the Company's test year expenses and capital  
13 expenditures include payments to WUM. WUM is a separate corporate entity, which  
14 does not operate as a public utility, but provides support services to May River and its  
15 sister corporations in Georgia. These services include plant maintenance, repair and  
16 construction, meter reading, water testing, compliance of state requirements, and the like.  
17 Because WUM provides these services to all of May River's sister companies in Georgia,  
18 serving a total of approximately 10,000 customers, this arrangement allows May River to  
19 more efficiently provide utility services to its customers in South Carolina at a reasonable  
20 cost and to more effectively manage its operational responsibilities.

1 **Q. WOULD THE EXPENSES ASSOCIATED WITH THE SERVICES PROVIDED**  
2 **TO THE COMPANY BY WUM CONSTITUTE AFFILIATE TRANSACTIONS?**

3 A. Yes, they would.  
4

5 **Q. YOU STATED THAT THIS ARRANGEMENT ALLOWS MAY RIVER TO**  
6 **PROVIDE THESE SERVICES AT A REASONABLE COST; COULD YOU**  
7 **PLEASE ELABORATE ON THIS POINT?**

8 A. Certainly. First, WUM is captive in the sense that its services to May River and  
9 its sister companies, which include payroll, tax, procurement services, maintenance and  
10 operations are only provided to these entities. This relationship is cost efficient since it  
11 avoids duplication of these services and functions for each entity. Second, the  
12 Management Fee in the amount of \$2,250 per month is reasonable in that it recovers  
13 WUM's costs incurred in providing these services.  
14

15 **Q. HAS WUM PERFORMED ANY ANALYSIS OF ITS COSTS TO PROVIDE**  
16 **THESE SERVICES?**

17 A. Yes, it has. Although the Management Fee is a flat fee arrangement which  
18 secures all of the services necessary for May River to operate, WUM reviewed its cost  
19 basis for the Management Fee as part of this proceeding. As is reflected in Exhibit JW-1,  
20 WUM incurred approximately \$18,126 in expenses during the test year directly  
21 attributable to operating the May River water system. These direct expenses included  
22 operator salaries, vehicle use, directly assignable billing costs, water testing, meter  
23 reading, and other similar operations. In addition, WUM incurred approximately \$5,152

1 in indirect costs related to operating May River. These costs include costs which are not  
2 directly assignable to May River such as WUM's blanket insurance policy, computer  
3 systems, equipment and machinery usage and office space rental.

4  
5 **Q. IN PERFORMING ITS ANALYSIS, HOW DID WUM DETERMINE THE**  
6 **AMOUNT OF THESE INDIRECT COSTS WHICH SHOULD BE**  
7 **ATTRIBUTABLE TO MAY RIVER?**

8 A. WUM assigned these costs on the basis of customer count. May River's thirty  
9 (30) customers comprise approximately 0.3% of the 9,450 total customers served by  
10 WUM and its sister companies. Therefore, the total amount of these costs were attributed  
11 to May River based on its percentage of customers.

12  
13 **Q. WHAT DOES THE REMAINING PORTION OF WUM'S MANAGEMENT FEE**  
14 **REFLECT?**

15 A. The remaining amount of the Management Fee reflects WUM's obligation and  
16 responsibilities related to its operation of the system. For example, WUM is on call  
17 twenty-four hours a day, seven days a week to address any system interruptions or  
18 emergencies that may arise. As well, WUM provides regulatory support to May River,  
19 including assistance for rate cases and working with DHEC, ORS and other South  
20 Carolina agencies. While these services are intangible, they do benefit May River and  
21 WUM's charges for the availability of these services are reasonable.

1 **Q. HAS MAY RIVER DETERMINED WHETHER IT COULD SECURE THESE**  
2 **SERVICES IN THE OPEN MARKET AT A CHEAPER RATE?**

3 A. Yes, it has. As more fully discussed by Company Witness Tom Smith, the  
4 Company, at ORS's direction, requested estimates from independent third-party vendors  
5 on their charges to operate and manage the May River system. Based on the Company's  
6 investigation, the amount paid by May River to WUM for management services is  
7 comparable to what is available in the open market.

8  
9 **Q. WHY DOES THAT MAKE THE WUM CHARGES REASONABLE?**

10 A. These quotes demonstrate that WUM is charging to May River a rate which is less  
11 than or comparable to similar services which is available in the public market place.  
12 Because this rate is equivalent to that which could be bargained for in an arms-length  
13 transaction, the rate is therefore reasonable and does not reflect that customers are  
14 bearing an inflated or unwarranted cost for these services.

15  
16 **Q. WHAT RATEMAKING METHODOLOGY DOES MAY RIVER PROPOSE**  
17 **THAT THE COMMISSION EMPLOY IN THIS CASE?**

18 A. May River proposes that its rates be determined utilizing operating margin  
19 methodology.

20  
21 **Q. WHAT IS THE PROPOSED RATE INCREASE DESIGNED TO ACCOMPLISH**  
22 **FOR THE COMPANY?**

1 A. The proposed rate increase is designed to generate additional revenues that will  
2 allow the Company to move closer to being on a sound financial footing, to allow it to  
3 raise additional capital, and to increase its earnings to a more reasonable level through  
4 fair charges to the consumer.

5  
6 **Q. WOULD YOU PLEASE SUMMARIZE THE FINANCIAL STATUS OF THE**  
7 **COMPANY?**

8 A. The income and expense statement shows that the Company is currently losing  
9 money on its operation of the water system, and that its operating margin is far below that  
10 which is needed or reasonable. Without rate relief, the company will continue to  
11 experience high levels of losses, and its ability to exist and provide quality services over  
12 time will be jeopardized. Even after the proposed rates are applied to the Company's  
13 operations, the Company would only have an operating margin of 3.41%. Although this  
14 operating margin is low, it is my opinion that the requested rates are just and reasonable  
15 when considering the size of the Company and that the resultant operating margin is more  
16 than justified.

17  
18 **Q. COULD A GREATER OPERATING MARGIN BE JUSTIFIED?**

19 A. In my opinion, yes. Even if the Company's proposed expense items were  
20 adjusted by the Commission such that the Company's resultant operating margin was  
21 greater, the Company's expenses incurred in operating the system would still warrant the  
22 rate relief requested. In sum, even with efficient management and operational controls,  
23 the Company is unable to earn sufficient revenue to cover its expenses in operating the



1 system. Consequently, the requested rates, additional revenue, and operating margin are  
2 all justified.

3

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes, it does.

<b>MAY RIVER WATER COMPANY INC</b>					
<b>ALLOCATION OF WATER UTILITY MANAGEMENT, LLC EXPENSES</b>					
<b>FYE 2009</b>					
				<b><u>DIRECT</u></b>	
				<b><u>WUM</u></b>	
LICENSED WATER DIST OPERATOR				10,021.27	3 MAN HRS A WEEK
METER READER				398.23	18 MAN HRS A YEAR
WATER TESTING				1,103.13	3 MAN HRS PER MONTH
COMPLIANCE OFFICER				1,026.76	17 MAN HRS PER YEAR
ACCOUNTING				2,816.24	8 MAN HR PER MONTH AT 27.91 PER HR
VEHICLE EXPENSE				2,235.98	71 TRIPS 59.82 MILES PER TRIP 55CENTS PER MILE
POSTAGE				52.20	30 BILLS PER MONTH
BILLING STOCK				23.40	MATERIAL COST 30 BILLS PER MONTH
BILLING COSTS				362.53	LABOR BILLING/CASH RECEIPTS
PREPARATION OF CCR REPORT				86.61	LABOR 4 HRS
TOTAL DIRECT COSTS				18,126.35	
ALLOCATED INDIRECT COSTS				5,152.28	WUM 2009 ADJUSTED EXPENSES
					PRO RATA CUSTOMER COSTS 30/9450
TOTAL COSTS				23,278.63	